

National Health Expenditure Projections 2015-2025

Forecast Summary

Major Findings for National Health Expenditures: 2015-2025

- For 2015-25, health spending is projected to grow at an average rate of 5.8 percent per year (4.8 percent on a per capita basis).
- Health spending is projected to grow 1.3 percent faster than Gross Domestic Product (GDP) per year over this period; as a result, the health share of GDP is expected to rise from 17.5 percent in 2014 to 20.1 percent by 2025.
- As the initial impacts associated with the Affordable Care Act's coverage expansions fade, growth in health spending is expected to respond to changes in economic growth, faster growth in medical prices, and population aging. By the end of the projection, Federal, state and local governments are projected to finance 47 percent of national health spending (from 45 percent in 2014).
- Projected national health spending growth, though faster than observed in the recent history, is slower than in the two decades before the recent Great Recession, in part because of trends such as increasing cost-sharing in private health insurance plans and various Medicare payment update provisions.
- National health spending growth is projected to have been 5.5 percent in 2015, compared to 5.3 percent in 2014, after which it is expected to decelerate to 4.8 percent in 2016.
 - The first two years of the projection are anticipated to be influenced by the persisting effects of the coverage expansions under the Affordable Care Act. For 2015, continued enrollment growth in Medicaid and the Marketplaces, as well as projected enrollment increases in employer-sponsored plans, is expected to have resulted in a slight acceleration in national health spending growth (5.5 percent) and a further substantial reduction in the number of uninsured (7.2 million).
 - By 2016 the transition of consumers into Medicaid and Marketplace plans and the associated rapid declines in the number of the uninsured are expected to slow significantly, contributing to a lower rate of growth in health spending (4.8 percent).
- Health spending growth is expected to accelerate and average 5.7 percent for 2017 through 2019 as a result of gradual increases in economy-wide and medical-specific prices. Also contributing to faster average growth over these three years are increases in the use and intensity of medical goods and services driven by greater gains in disposable personal income.

- Projected average growth of 6.0 percent is anticipated for 2020 through 2025, the fastest of the sub-periods examined. Growth in spending for Medicare is notable as strong enrollment growth amongst baby boomers, and a return to higher utilization rates of Medicare services that more closely resemble their historical average, drives 7.6 percent average growth. Projected average growth of 6.1 percent in Medicaid is driven primarily by the changing profile of that program's population as an increasingly higher share of beneficiaries is comprised of comparatively expensive aged and disabled individuals.
 - Population aging is also anticipated to contribute to faster overall growth in national health spending during this period. Both Medicare and Medicaid spending per enrollee are projected to grow more relative to recent historical experience under expectations of increasing use by aging beneficiaries.
 - Through the second half of the projection, increasing use of services by the privately insured, in response to rising income growth, and the sustained effects of population aging are projected to drive faster growth in national health expenditures.

Major Findings by Payer

Medicare

- Medicare spending growth is projected to have decelerated from 5.5 percent in 2014 to 4.6 percent in 2015 due in part to reductions in physician incentive payments, reduced utilization of hospital services, and a deceleration in drug spending.
- After 2015, Medicare spending growth is projected to accelerate to a projection-period peak of 7.9 percent in 2020 (and average growth of 7.6 percent for 2020 through 2025). This faster growth is expected due to both strong projected annual enrollment gains as more baby boomers reach the age of entitlement and rising growth in per beneficiary spending. Faster growth in per beneficiary spending reflects expectations that growth in the use and intensity of services provided under Medicare will rise from recent historic low rates and become closer to longer-term averages; although these rates are higher than in the recent past, they are not anticipated to reach rates experienced over the program's long-term averages.
- The Medicare Access and CHIP Reauthorization Act (MACRA) is also projected to exert upward pressure on spending growth in the Medicare program over the next decade through legislated increases in payments to certain providers after 2017.

Medicaid

- Largely influenced by the sustained effects of the coverage expansions under the Affordable Care Act, and following 11.0-percent growth in 2014, total Medicaid spending is projected to have grown 10.7 percent in 2015 with increased enrollment of 3.1 million beneficiaries. In 2016, as the effects of the coverage expansion wane, Medicaid spending is projected to slow to 5.3 percent.
- After 2016, Medicaid spending growth is projected to average 6.0 percent per year through 2025, as aged and disabled beneficiaries, who typically require more expensive care, represent an increasingly larger share of the Medicaid population.

Private Health Insurance

- Somewhat faster than the 4.4-percent growth observed in 2014, private health insurance spending is projected to have grown 5.1 percent and to have reached \$1.0 trillion in 2015, due in part to faster overall private insurance enrollment growth of 2 percent (up from 1.2 percent in 2014) in both the Marketplaces and employer sponsored insurance.
- For 2017 through 2019, private health insurance spending growth is projected to accelerate to an average of 5.6 percent per year due to faster growth in disposable income, and more rapid growth in prescription drug prices as fewer drugs lose patent protection over this timeframe.
- For 2020 through 2025, private health insurance spending growth is projected to be above 5 percent per year, but to generally slow in the final years of the period in response to slowing growth in incomes.

Out-of-Pocket

- After three consecutive years of decelerating growth, out-of-pocket spending is projected to accelerate 1.3 percentage points to 2.6 percent in 2015. Growth is projected to continue to accelerate each year through 2018 as the impact of the coverage expansions from the Affordable Care Act subsides, and as the number of individuals covered through high-deductible health plans continues to grow.

- For 2020 through 2025, out-of-pocket spending growth is projected to average 5.5 percent per year (compared to 4.8 percent in 2017-19). Contributing to this more rapid average growth is the excise tax on high-cost insurance plans, which begins in 2020, as some employers are expected to reduce benefits and increase cost-sharing so that they are not subject to the tax.

Major Findings by Sector

Hospital

- Total hospital spending is anticipated to have accelerated from 4.1 percent in 2014 to 4.9 percent in 2015 (to \$1.0 trillion), due to the continued effects of the Affordable Care Act's insurance expansions on utilization.
- Hospital price growth is projected to rise from 0.9 percent in 2015 to 2.8 percent by 2019 due to expected faster growth in input costs. Over the remainder of the projection period, hospital price growth is expected to average at about 3.0 percent per year.

Physician and Clinical Services

- Growth in spending on physician and clinical services is projected to have accelerated in 2015 to 5.4 percent (\$636.3 billion), after growth of 4.6 percent in 2014, as more consumers acquired coverage through either private health insurance plans or Medicaid.
- Projected faster spending growth in 2015 was dampened by a substantial deceleration in physician price growth from 0.5 percent in 2014 to -1.1 percent in 2015. Underlying the change in physician price growth in 2015 was a significant decline in payment rates for Medicaid providers, which coincided with the expiration of the temporary increase in payments to Medicaid primary care physicians. Accordingly, Medicaid spending growth on physician and clinical services is projected to have slowed from 22.8 percent in 2014 to 11.4 percent in 2015.
- Despite expanded insurance coverage provided by the Marketplaces, growth in private health insurance spending on physician and clinical services is tempered somewhat over the projection period (averaging 4.9 percent for 2015 through 2025) by the continued expected growth of high-deductible health plans, which tends to disproportionately impact the utilization in this category.

Prescription Drugs

- Prescription drug spending is projected to have grown 8.1 percent in 2015 and to have reached \$321.9 billion, after growth of 12.2 percent in 2014. This somewhat slower, but still relatively strong growth is a result of the continued impact of newly approved, and expensive, drugs to treat conditions such as hepatitis C and cancer.
- Prescription drug spending is projected to grow an average of 6.7 percent per year for 2016 through 2025 as the influence on spending from newly approved drugs is expected to fade after two years of above average impacts.
- The point at which drug spending growth is projected to peak during the projection period is 2018 as relatively fewer brand-name drugs are expected to lose patent protection and thus downward price pressure typically associated with the introduction of generic substitutes is somewhat mitigated.

Major Findings by Sponsor

- Health care spending sponsored (or financed) by federal, state, and local governments is projected to have grown 7.0 percent to \$1.5 trillion in 2015.
- Reflecting growth trends in private health insurance and out-of-pocket spending, outlays by businesses, households, and other private sources are projected to have risen by 4.2 percent in 2015, and to have reached \$1.7 trillion.
- The government-sponsored share of health spending is projected to increase and account for 47 percent of national health expenditures by 2025 (up from 45 percent in 2014), largely driven by Medicaid coverage expansions, Marketplace plan premium and cost-sharing subsidies, and increased use and intensity in medical services for the Medicare program as the baby-boomers continue enrolling into the program.